Report to the Treasury Select Committee

Andrew G Haldane, Chief Economist and Executive Director

9 February 2018

Term of appointment: 1 June 2014 - 11 June 2020

Last TSC Appearance: 21 February 2017 – *Inflation Report* Hearing

Voting record over the past year and economic overview

9 MPC votes cast between January 2017 and (including) February 2018:

February 2017, March 2017, May 2017, June 2017, August 2017, September 2017, November 2017, December 2017 and February 2018

It is almost exactly a year since my last report to the Treasury Committee.

Over that period, I voted to increase interest rates by 25 basis points to 0.5% in November last year, while maintaining the size of the MPC's asset purchase programme. Since then, I have voted to maintain the level of interest rates and the stock of asset purchases.

A year ago the economic outlook was for: strengthening global growth, broadly-based across regions; resilient UK growth, with a rotation away from consumption and towards business investment and net trade; and a slow build of underlying cost and inflation pressures.

By and large, those have been the key contours of the economy, globally and nationally, over the past year. If anything, there has been somewhat greater momentum in growth and in price pressures, and a greater rotation towards net trade, than foreseen a year ago.

Global growth has been picking up pace for more than 18 months. Over that period, there has been a revival in risk appetite among companies, financial institutions and, to lesser extent, households. This has helped boost asset prices in financial markets and lower the cost of borrowing for companies and households. There has been a lengthening and deepening of global supply chains and a boost to investment plans by companies.

That has made for an investment-rich global recovery, which now looks stronger and more sustainable than at any point since the global financial crisis. Global growth has also been well-spread geographically, with every region surpassing expectations and growing at or above potential. That, too, increases the chances of global growth proving sustainable.

This momentum in global growth seems set to continue for the foreseeable future, with global growth forecasts – including, most recently, the Bank's – being revised upwards. An investment-rich, geographically-spread global recovery should support global productivity growth – a key missing ingredient since the crisis – boosting supply potential and thus increasing the chances of the global recovery being sustained.

Alongside weaker sterling, higher world growth has supported UK net trade over the past year, which has been a significant contributor to UK growth. Domestic demand – business investment and household consumption – has grown more modestly, while still remaining fairly resilient in the face of a squeeze on household real incomes and Brexit-related uncertainties. UK growth in 2017 was around 1.8%, broadly similar to 2016.

Although below historic levels, these growth rates are above Bank estimates of the economy's supply potential, or "speed limit", of around 1.5% per year. In other words, the past year has seen a further reduction in the economy's degree of spare capacity or slack. This can be seen, too, in the labour market, where unemployment has fallen further over the past year to levels below the Bank's estimate of its longer-term equilibrium rate.

At the same time as overall slack in the economy has been diminishing, and is currently close to be being fully absorbed, UK CPI inflation has risen to around one percentage point above the 2% inflation target. This rise is very largely the result of sterling's post-referendum depreciation, boosting the prices of UK imports. Those effects are expected to persist for several years, maintaining inflation above its target.

Since the referendum, the MPC has faced a policy trade-off, with the economy running somewhat below potential, but with inflation running above target. In these circumstances, its remit requires the MPC to aim to return inflation to target over a somewhat longer than usual time horizon, to enable monetary policy to support jobs and incomes in the economy.

Over the past year, the combination of small and diminishing levels of slack in the economy, taken alongside above-target levels of inflation, has made this policy trade-off facing the MPC less acute. And looking ahead, according to the Bank's projections, it seems likely this trade-off will disappear entirely, as the very small remaining amounts of slack in the economy are fully absorbed, at the same time as inflation remains above target.

Against this backdrop, I made clear in the middle of last year that I believed some modest tightening of monetary policy was likely to be appropriate in the relatively near future, to return inflation sustainably to its target. To that end, in November last year I voted (as did the MPC collectively) to raise Bank Rate by 25 basis points. Even with this modest rate rise, UK monetary conditions remain as loose as prior to the cut in rates in August 2016. By any historical measure, the monetary policy stance remains highly supportive of the economy.

Since November, world growth has continued to both broaden and strengthen, causing the MPC to revise up further its world growth projections in the February 2017 *Inflation Report*. UK growth has also surprised to the upside over this period and is forecast to remain at around 1 ¾% over the next few years, slightly above its speed limit, such that the UK economy reaches a position of excess demand by early 2020.

On the costs and prices side, there are growing signs of tightness and recruitment difficulties in the jobs market. Taken alongside above-target levels of inflation, this seems to be causing some upward pressure on wages. For example, the latest survey from the Bank's Agents points to private sector wage settlements rising to around 3% this year, half a percentage point higher than last year. Tightness in the labour market appears, at long last, to be beginning to translate into higher wages.

It is still early days, but if so this would be a good thing both for workers (who have suffered low pay rises for a decade) and for the Bank (in meeting its inflation target). As the effects of higher external prices and costs dissipate over the next few years, some rise in domestic wages and costs is necessary if inflation is to remain sustainably at its target. There are encouraging green-shoot signs of that starting to happen.

The February *Inflation Report* projections, conditioned on a path for interest rates which involves around three rate rises over the next three years, foresee the UK economy reaching a position of excess demand sooner than in November, while inflation remains above its target. In this situation, with the policy trade-off eliminated and assuming the economy behaves broadly in line with those projections, the MPC believes there is a case for interest rates rising somewhat earlier and somewhat further than their conditioning path in the February *Report*, if inflation is to be returned sustainably to target.

I would judge the risks to the MPC's latest projections, for both UK demand and inflation, as lying to the upside. I think there is the potential for greater than expected momentum in both global and UK growth and inflation. In my view, this would put the balance of risks to the path of interest rates necessary to return inflation sustainably to target to the upside. Such a path, were it to come to pass, would be consistent with the path of interest rate rises being gradual and limited in extent. And the overall UK monetary policy stance would remain highly accommodative, supporting jobs and incomes in the economy.

Of course, there are also downside risks to these central projections. One important source of downside risk would an escalation of Brexit-related uncertainties. That could adversely affect companies' investment plans and trade flows. The MPC's approach to these Brexit-related risks, with which I strongly agree, is to respond to them insofar as they affect behaviour by households, businesses and in financial markets.

So far at least, and in part because it has yet to take effect, the impact of Brexit on households and the majority of companies appears to have been modest. The effects of Brexit uncertainty have been felt in the investment plans of a significant minority of companies, according to intelligence from our Agents and the Bank's new Decision Maker Panel of companies.

One place where Brexit has bitten is the Bank's own resourcing, with significant resources allocated to assessing and managing the potential impact of Brexit on the economy and financial system. That has led to a loss of staff working on core MPC material. This will need to be carefully monitored, and is being, in the period ahead.

Engagement with External Stakeholders

I have undertaken seven regional visits over the past year, covering England, Scotland, Wales and Northern Ireland. I have significantly broadened the scope of these visits over time, so that they involve schools, trades unions, community groups and charities, among others, in addition to private companies.

I have augmented this regional programme with a targeted sequence of "Townhall" visits, typically in partnership with a charity, community or faith group, as part of the Bank's broader outreach strategy. So far, I have completed four Townhalls with the aim being to complete 6-8 each year. These will cover all parts of the UK, but with a particular focus on disadvantaged regions and communities. Their aim is:

- To widen and deepen the range of Bank contacts – for example, greater numbers of schools, charities, trades unions, faith groups, social enterprises and community groups;
- To the explain to this wider audience the Bank's views on the economy and what the Bank itself is doing to support the economy and financial system; and
- To hear views from these groups about the issues most affecting their lives and livelihoods and to bring this intelligence back to the Bank to inform our view on the economy and policy.

In their short life so far, I have found the Townhall visits an invaluable source of insight and intelligence on the economic and financial issues facing households and communities, particularly in disadvantaged pockets of the UK. Importantly, these are not insights readily available from existing statistical sources.

To give an example, towards the end of last year I was struck by the first-hand accounts I heard about the impact of the higher cost of living on the spending choices facing households. More expensive goods in the shops were really biting into many people's spending. And they were biting hardest for those least able to afford these price rises. This was an important factor weighing in my decision to vote to raise interest rates in November 2017, as a mean of curbing this higher cost of living.

As in previous years, I have given a large number of talks in schools. These now form part of the Bank's new educational programme which involves developing curriculum materials, a Bank-wide ambassador programme of school visits, a new schools competition and new schools-based digital material. These initiatives are one of the important public goods I believe the Bank can provide, helping improve young people's understanding of and decision-making about economic and financial matters, in ways which benefit their financial and mental health and, ultimately, the functioning of the wider economy.

As in previous years, I have also given a large number of talks and speeches to a wide and diverse range of other audiences, including students, think-tanks, trade associations, charities, businesses, central banks, government departments, academics, diversity and faith groups. These form part of the Bank's strategic outreach programme. This aims to engage a much-wider range of society than ever previously, improving not only public understanding of the Bank but the Bank's understanding of the public.

A selection of my external engagements is listed in Annex 1.

Annex 1: External engagements since February 2017

Regional Visits

2017

- 27 & 28 February – Northern Ireland
- 20 April – South East and East Anglia
- 25 & 26 May – East Midlands
- 20 & 21 June – Yorkshire and Humber
- 27 November – West Midlands

2018

- 25 & 26 January – Scotland
- 19 & 20 February – North West

Speeches

- 'Productivity puzzles' - London School of Economics, 20 March 2017
- A Little More Conversation, A Little Less Action' - Federal Reserve Bank of San Francisco, Macroeconomics and Monetary Policy Conference, 31 March 2017
- 'Work, Wages and Monetary Policy' - National Science and Media Museum, Bradford, 20 June 2017
- 'Rethinking Financial Stability' - Rethinking Macroeconomic Policy IV Conference in Washington, DC at the Peterson Institute for International Economics, 12 October 2017
- 'Everyday Economics' - Nishkam High School, Birmingham, 27 November 2017

Townhalls

- Townhall in partnership with Citizens Cymru, Wales, 28 June 2017
- Townhall in partnership with the Muslim Council of Great Britain, 4 August 2017
- Townhall in partnership with Oxfam, 3 November 2017
- Townhall in partnership with the Church of England and Just Finance Foundation, 9 February 2018

Business Group Meetings

- Discussion at EEF Manufacturers' Association Roundtable, 9 February 2017
- Discussion at the Institute of Banking in Ireland, 28 February 2017
- Discussion at Nuffield Stated Meeting Seminar, 4 March 2017
- Discussion at the Competition and Markets Authority, 27 June 2017
- Discussion at the Welsh Government, 28 June 2017

- Discussion at the People's Trust, 5 July 2017
- Discussion at the Pro Bono Economics and FTI Consulting event, 7 July 2017
- Discussion at the Henry Jackson Society, 19 July 2017
- Discussion at the Finance Foundation Annual Lecture, 25 July 2017
- Discussion at the Global Infrastructure Investor Association, 5 September 2017
- Discussion at TeachFirst, 25 September 2017
- Discussion at Economic Research Council, 5 October 2017
- Discussion at the Royal Society of Arts, 6 October 2017
- Discussion at the Academy of Social Sciences, 10 October 2017
- Discussion at Nuffield Foundation Trustees Dinner, 2 November 2017
- Discussion at the Launch of the Decision Maker Panel, 22 November 2017
- Discussion at the Deloitte CFO Survey 10th Anniversary, 29 November 2017
- Discussion at the American European Business Association, 1 December 2017
- Discussion at the LSE Spinoza Foundation Launch, 17 January 2018

A selection of Research Conferences and University Talks

- Discussion at King's College London, 7 February 2017
- Discussion at the Bank of England/National Institute of Economic and Social Research/University of Warwick/ESRC Centre for Macroeconomics Conference, 3 July 2017
- Discussion at the Workshop on Growth, Stagnation and Inequality, 3 October 2017
- Discussion at University of Nottingham, 3 October 2017
- Discussion at the OFR/Brandeis International Business School/Bank of England Joint Conference, 21 September 2017
- Discussion at the IMF/HKMA/Bank of England Joint Conference, 9 November 2017
- Discussion at the ECB Conference, 15 November 2017
- Discussion at the 26th International Rome Money, Banking & Finance Conference, 15 December and Award of the Ferdinand Pecora Prize, Sicily, 15 December 2017
- Attendance at American Economic Association ASSR Annual Meetings, Philadelphia, 5-6 January 2018

Interviews and articles

- Foreword to 'Before Babylon, Beyond Bitcoin: From Money that we Understand to Money that Understands Us' by David Birch, 15 June 2017
- Foreword to the 'Understanding money skills' report by Citizens Advice, April 2017
- Interview with Helia Ebrahimi on Channel 4, 22 June 2017
- Interview with Evan Davis, BBC Newsnight, 29 June 2017
- Interview with The Guardian, "BoE economist wants to hear about hardship in the UK – first stop wales", 30 June 2017
- Interview with the Financial Times, "Bank of England's Andy Haldane goes on tour of the UK", 20 August 2017
- Broadcast on Sky News, "Interest rate rise should not be feared, says Bank of England economist", 28 September 2017
- Interview with The Independent, "A View from the Top: Andy Haldane, Chief Economist at the Bank of England", 27 October 2017

- Interview with The Times, "Bank of England offers GCSE pupils lessons on daily finances and debt", 1 December 2017
- 'Central Bank Communications and the General Public', forthcoming article in 2018 AEA Papers & Proceedings
- Interview with BBC Radio 4 on QE, "How much use is a magic money tree anyway?", 29 January 2018

Schools/Colleges/Universities

- Talk at University of Exeter Business School Alumni Association, London, 15 February 2017
- Talk at St Catharine's Political Economy Seminar, Cambridge, 22 February 2017
- Speakers for Schools Talk at St Paul's High School, Bessbrook, County Armagh, 28 February 2017
- Speakers for Schools Talk at Cottenham Village College, Cambridge, 20 April 2017
- Talk at Oasis South Bank Academy, London, 28 April 2017
- Speakers for Schools Talk at Dixons City Academy, Bradford, 21 June 2017
- Discussion at the University of Sheffield Political Economy Research Institute reception, London, 12 July 2017
- Discussion at Old Swinford Hospital School Annual Foley Lecture, Stourbridge, 29 January 2018
- Talk at Orkney College and Kirkwall Grammar School, Orkney, 25 January 2018
- Talk at Stromness Academy, Stromness, 25 January 2018
- Speakers for Schools Talk at St Mary's College, Blackburn, 20 February 2018

Other Events

- Interview with Ken Rogoff for Jewish Book Week, 4 March 2017
- "TED talk" for National Numeracy at BBA Retail Banking Conference, 29 June 2017
- Discussion at the National Numeracy 'Essentials of Numeracy' Launch, 11 July 2017
- Bank of England roundtable on 'Education in Economics', 12 January 2018
- Panel member of the Independent Review of Full Time Social Action by Young People.